

FOOD FOR THOUGHT

A periodic examination of key issues and trends from Marsh's Food & Beverage Practice



INTERNATIONAL EXPANSION RISK FOR FOOD AND BEVERAGE COMPANIES

International expansion is an important strategy for many food and beverage companies seeking to grow their bottom lines. With fewer opportunities to expand market share in the US, overseas markets offer opportunities with their increasing middle-class populations and thirst for aspirational products. But with expansion comes a variety of risks, including regulations that vary by country, supply chain disruptions, political upheaval, and employee safety. Identifying, analyzing, and managing the risks of expansion from the outset can ultimately determine the success of overall growth.

EXPANSION STEPS

Most food and beverage companies take incremental steps toward international expansion, accepting relatively low risks early on for less ownership and control. Gradually, companies may increase the risk they accept as they eye potentially greater rewards through taking complete control of the operations. Some initial steps for food and beverage companies to consider when expanding internationally include:

1. Exporting domestically made products, and licensing overseas producers to manufacture a specific product.
2. Franchising a particular operation or product line as well as forming a strategic alliance with a company in the region of interest.
3. Operating a joint venture or a wholly owned subsidiary in multiple regions.

At each stage, more investment and risk is assumed, and a larger degree of ownership and control is developed. The risks at each step can increase and become more complex, requiring a

company to have a well-organized assessment process in place to identify and manage them.

LEGAL ISSUES

Food and beverage companies looking to expand into a new region need to understand and comply with local regulatory systems, which can affect business processes. Regulations around new construction, environmental issues, employee health and safety, operating permits, business insurance, and consumer rights may be different from what companies are used to in the US. Legal firms and trade associations often have international offices that can help companies understand potential legal issues, and insurance brokers often have global capabilities or can suggest resources to help navigate foreign insurance regulations.

POLITICAL RISKS

A region's political situation and economic climate can be important factors in determining whether to expand internationally. It is a good practice to carefully examine the



political stability of a particular region of interest, as volatility may affect supply chains, employee/customer safety, production processes, and consumer purchasing. Political risks include the sudden or violent illegal seizure of government power, transitions of government power, nationalization of production facilities, and armed conflicts.

Various government agencies — such as the Central Intelligence Agency’s World Factbook or the US Department of State’s warnings and alerts — can be good resources to help evaluate political and economic risk. Food and beverage organizations should consider political risk insurance, which is designed to help mitigate the financial damage resulting from political violence.

SUPPLY CHAIN RISK

Expanding manufacturing operations to another region may result in unforeseen supply chain risks as the materials in transit may be exposed to new natural hazards, longer supply chains, different regulations, uncertain political situations, and new supply chain partners. A comprehensive review of the supply chain — focusing not only on tier one suppliers, but also tiers two, three, and beyond — can identify new risks associated with expansion, particularly for new international locations.

HUMAN RESOURCE RISK

International expansion can significantly affect a food and beverage company’s most important asset — its people. Critical staff members are often relocated to support international

expansion efforts. Language can become a barrier to efficient operations and a source of potential errors if the staff is not fluent in local dialects. To manage these risks effectively, food and beverage companies can:

- Locally source human resource specialists.
- Develop training materials and processes that take into account local regulations and customs.
- Comply with local union regulations and pension requirements.
- Create a network of local staff contacts.
- Implement an emergency plan that includes a crisis management team.
- Review current medical, travel, and accident insurance.
- Purchase kidnap and ransom coverage.

OPPORTUNITIES FOR FOOD AND BEVERAGE COMPANIES

The global marketplace offers many growth opportunities. While taking advantage of these opportunities, organizations need to properly identify and manage the risks. Legal advisors, business insurance experts, and government agencies can all help with international expansion plans. Applications of good risk management practices are essential to successfully expand globally.

For more information about Marsh’s Food & Beverage Practice visit marsh.com, or contact your local Marsh representative.

MAC NADEL
Retail/Wholesale, Food & Beverage
Practice Leader
+1 203 229 6674
mac.d.nadel@marsh.com

LARRY MULLEN
Retail/Wholesale, Food & Beverage
Deputy Practice Leader
+1 949 399 5865
larry.j.mullen@marsh.com

Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

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